

Testimony of
Congressman Steve King

Before the House Ways and Means Hearing On
Tax Reform and Consumption-Based Tax Systems

July 25, 2011

Chairman Camp, Ranking Member Levin, and Members of the Committee on Ways and Means:

You are to be commended for your commitment to fundamental tax reform as demonstrated by this hearing and others throughout this first session of the 112th Congress. Tax reform, however, is far too important an issue for us to simply explore. It is imperative for the future of the American economy that this Congress to enact fundamental tax reform and get it right. Ronald Reagan once said, "if you want less of something, tax it." It is vitally important that we keep this axiom in mind as we discuss various proposals to reform our tax code. With our current income tax system, the federal government has the first lien on all productivity in America. Because of this, as Ronald Regan predicted, our economy is less productive than it otherwise could be. The simple fact is that our tax code inhibits our production.

As a former small business-owner, I know the profound negative affect our tax code has on our economy. I owned and ran a construction company for 28 years. Tax-code compliance can be one of the single greatest annual expenses for an American business. Wading through the nearly 70,000 pages of the tax-code has become an impossible tasks for business owners to accomplish on their own. They are forced to employ armies of accountants just to calculate how much they owe the federal government. In fact, estimates place the total cost for tax-compliance each year in America is around \$300 billion and growing. The truth is, with our current tax-code, we have placed an unacceptable burden on the backs of American businesses.

With the current state of our economy, the impending calamity surrounding our national debt, and the complex and burdensome nature of our tax-code, the time for tax-reform is now. The FairTax represents a way for the federal government to collect more revenue, from a broader base, with a simpler, more transparent, and pro-growth method.

The FairTax, which is embodied in H.R. 25, will completely alter the federal government's tax collection practices, taxing consumption rather than production. By doing this, we could completely untax productive behavior in the United States and give Americans all the incentive in the world to earn all that they can, invest all that they can, save all that they can, keep all that they wish, and decide when and how much to pay in taxes each year.

H.R. 25 would replace all federal income taxes, payroll taxes, excise taxes, estate taxes, and gift taxes with a national sales tax of 23 percent on the consumption of new goods and services. With a shift from taxation of productive behavior to consumption, Americans will be able to take home their entire paycheck. This will have an enormous stimulus effect on our economy.

The FairTax will also have an important impact on the relationship between American citizens and their government. Under our current income tax code, most Americans have no idea how much they pay each year in taxes. Because their contributions to the federal coffers are made through withholding, there is a large disconnect between what they're supposed to be paid and what they actually take home. Most earners don't pay much attention to the share of their paycheck the government takes. For too many, the only time they spend any serious time considering the amount of money taken by the IRS is the time they spend each spring determining how much they'll get back in their refund check. This environment has unfortunately produced generations of Americans who are completely disconnected from the amount of their money it takes to run our bloated, inefficient, and wasteful federal government. On day one after enactment, the FairTax would begin to remedy this.

Every American who pulls out his wallet to pay the cashier at the Grocery Store or the movie theater will be given an instant reminder of the contribution he must make to keep the federal bureaucracy afloat. This, in turn, will give every voter reason to question the expensive promises made by politicians competing for his vote and will make him constantly question whether the money he is sending to Washington every day through his purchases is being used wisely. More importantly, however, the FairTax will reverse the effect that withholding and our income tax code has had on generations of Americans. Every young child who eagerly uses his allowance to buy a pack of skittles will face the stark reality that his precious dollar doesn't go as far as he'd like – because the federal government must take its share. This scenario, which will play out all across this nation everyday for millions of young Americans, can have no other impact than to begin the process of raising a new generation of fiscally conservative Americans who have a natural distrust of the growth of government.

We also cannot underestimate the incredible impact that the FairTax will have on our economy. Not only will Americans have more money to spend, they will have more money to save and invest—which will give American businesses more access to capital. This, in turn, will allow greater investment in research and development and allow for economic expansion throughout every sector of our economy.

A shift away from our income tax system will also increase the competitiveness of our manufacturers abroad. Right now American producers must pay payroll taxes and embedded taxes and compliance costs in this country and then export products overseas, pitting their products at a disadvantage when compared to the products sold by companies from abroad who do not have to pay these taxes. And so, when our products are sold overseas, they're more expensive than those in domestic markets.

When foreign producers sell their products here in the US, they often receive a rebate for the Value Added Taxes that they pay in their home countries. Currently, the US tax system gives an approximate advantage of approximately 20 percent to foreign producers. With the FairTax, US producers will no longer be forced to pass on embedded taxes. Exports will leave our shores completely untaxed, and imports will be forced to compete with domestically produced goods that are less expensive because of the fact that producers are no longer forced to pass on embedded taxes and compliance costs.

The FairTax also maintains a level of progressivity. A prebate would be provided monthly in advance payments to all households. The prebate amount would be equal to the poverty level times 23 percent. An extra amount is provided to married couples to prevent a marriage penalty. This check will be delivered at the first of the month and will ensure that no American family is forced to pay any federal taxes for the necessities of life.

The FairTax completely untaxes the poor. No poor American will pay tax on his or her consumption expenditures. The progressivity remains, however, for those who earn wages above the poverty level. For instance, a family that earns twice the poverty level is only going to pay half the tax rate.

H.R. 25 is called the FairTax because it is truly that—FAIR. Every American will be treated exactly the same at the cash register. While the prebate, coupled with levels of consumption, will ultimately determine Americans' tax liability, every American, regardless of age, race, or creed will be faced with the true cost of government every time they check out at the cash register. Every American will be reminded on a daily basis just how much it costs to keep our federal government running. And I will submit that there is no better way to ensure that the role of the federal government in our lives is minimized and our own individual freedom is maximized.